

Message Text

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ACTION STR-04

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 H-02 AF-08 ARA-06

EA-07 NEA-10 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05

PA-01 AID-05 CIEP-01 SS-15 ITC-01 TRSE-00 USIA-06

PRS-01 SP-02 FEAE-00 OMB-01 /136 W

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R 281537Z JUL 76

FM USDEL MTN GENEVA

TO SECSTATE WASHDC 1801

INFO AMEMBASSY OTTAWA

LIMITED OFFICIAL USE SECTION 1 OF 2 MTN GENEVA 6055

ACTION STR, PASS FEKETEKUTY

H PASS CODEL

E.O. 11652: N/A

TAGS: MTN, ETRD, GATT, CA

SUBJECT: U.S.-CANADIAN BILATERAL ON TARIFF NEGOTIATING PLAN

1. SUMMARY. CANADIAN DEL HAD NO CONSTRUCTIVE SUGGESTION, EITHER FORMULA OF WORDS OR OTHERWISE, ON HOW TO BUILD DUTY ELIMINATION INTO TARIFF FORMULA. CANADIANS MAY BE IN A POSITION TO MAKE A PROPOSAL IN FALL, BUT THIS DEPENDS ON WHETHER OTTAWA WILL BROADEN CANADIAN DEL MANDATE ON THIS ISSUE. END SUMMARY.

2. U.S. MTN DEL (AMB. WALKER, CULBERT, BALE, HAMERSCHLAG, MARSH) MET WITH CANADIANS (AMB. GREY, CLARK, DENIS, ELLIOT) AT THEIR REQUEST TO EXPLORE POSSIBLE MEANS OF INCORPORATING DUTY ELIMINATION SCHEME FOR TARIFFS 5 PERCENT OR BELOW INTO TARIFF PLAN. GREY NOTED THAT FAILURE OF U.S. TO USE LIMITED OFFICIAL USE

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ITS FULL AUTHORITY IN THE TARIFF-CUTTING FORMULA WOULD BE

INTERPRETED BY THE CANADIAN PRIVATE SECTOR AND POTENTIAL INVESTORS AS A SIGNAL THAT THE U.S. INTENDED TO MAINTAIN BARRIERS AGAINST CANADIAN GOODS. PROPOSAL OF FORMULA WHICH DOES NOT MAKE FULL USE OF CONGRESSIONAL GRANT OF AUTHORITY WAS BREAK WITH HISTORICAL PRECEDENT THAT HAD NOT GONE UNNOTICED. CANADIAN GOVERNMENT WAS ITSELF SURPRISED SINCE DUTY ELIMINATION AUTHORITY WAS APPROVED BY CONGRESS AS THE RESULT OF CONSIDERABLE FAVORABLE TESTIMONY, INCLUDING THAT OF THE CANADIANS THEMSELVES. GREY ACKNOWLEDGED THAT U.S. FORMULA WAS MUCH LESS OBJECTIONABLE THAN EC'S, BUT REITERATED THAT IT FAILED TO PROVIDE RECIPROCITY FOR CANADA WHOSE TRADE IS CONCENTRATED IN THE 5 PERCENT AND BELOW CATEGORY.

3. AMB. WALKER RESPONDED BY INDICATING U.S. UNDERSTANDING FOR THE CANADIAN CONCERN OVER LOW RATES, BUT POINTOUT THAT BOTH COUNTRIES HAVE A SUBSTANTIAL STAKE IN REDUCING PREFERENTIAL MARGINS IN THE EC, AND THOSE MARGINS ARE MOST TROUBLESOME IN THE 5 PERCENT TO 15 PERCENT RANGE. OUR TARIFF FORMULA PROPOSAL REFLECTED THIS PRIORITY. MOREOVER, TO HAVE PROPOSED A FORMULA CALLING FOR DUTY ELIMINATION WOULD HAVE FLOWN IN THE FACE OF THE KNOWN EC AND JAPANESE ATTRACTION TO A FLOOR/THRESHOLD, AND HAVE THEREBY MADE GETTING AGREEMENT ON A FORMULA WHICH CUT LOW AND MID-RANGE DUTIES BY SUBSTANTIAL AMOUNTS ALL THE MORE DIFFICULT.

4. AMB. GREY EMPHASIZED QUALITATIVELY GREATER IMPACT OF DUTY ELIMINATION OVER DEEP CUTS, BOTH WITH RESPECT TO INVESTMENT DECISIONS AND AVOIDANCE OF WHAT HE CALLED CUMBERSOME AND FRUSTRATING U.S. CUSTOMS PROCEDURES (ESPECIALLY DOCUMENTATION AND VALUATION). CANADA APPRECIATED U.S. WILLINGNESS TO FAVORABLY CONSIDER DUTY ELIMINATION ON SELECTED ITEMS, BUT THERE WAS A BASID INEQUITY IN A TARIFF PLAN WHICH HAD OTHERS ACHIEVE THEIR TARIFF OBJECTIVES VIS-A-VIS CANADA THROUGH AUTOMATIC APPLICATION OF A FORMULA WHILE CANADA HAD TO ENTER THE "JUNGLE" OF ITEM-BY-ITEM BARGAINING TO ACHIEVE ITS OBJECTIVES.

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5. GREY STATED THAT SO FAR THE CANADIANS SAW ONLY TWO MEANS OF RESPONDING TO A FINAL REFUSAL BY THE U.S. AND OTHERS TO UNDERTAKE TO PROVIDE FOR DUTY ELIMINATION OF LOW RATES IN THE FORMULA: (1) REFUSE TO BE A FORMULA PARTICIPANT; OR (2) AGREE TO BE A FORMULA PARTICIPANT, BUT EXCEPT THE BULK OF CANADIAN TARIFF ITEMS IN WHICH THE U.S., EC AND JAPAN HAVE

AN INTEREST, UNTIL CANADA ACHIEVES ITS DUTY ELIMINATION
OBJECTIVES. AMB. WALKER EXPRESSED SURPRISE THAT GREY
WOULD DESCRIBE THE CANADIANS' OPTIONS AS BEING
SO LIMITED. HE CALLED ATTENTION TO THE FACT
THAT GREY AND OTHER MEMBERS OF THE CANADIAN DELEGATION
PREVIOUSLY STATED THAT A COMMITMENT BY THE U.S. AND
OTHERS TO SOME FORMULA OF WORDS ON DUTY ELIMINATION
MIGHT SOLVE THE PROBLEM. GREY REPLIED HE WOULD TRY
TO HAVE SOME MORE SPECIFIC THOUGHTS AFTER HE HAD THE
OPPORTUNITY TO "CLEAR THE LINES" IN OTTAWA DURING THE
SUMMER BREAK. (COMMENT: GREY APPARENTLY HAD HOPED
THAT WE WOULD HAVE A SPECIFIC PROPOSAL FOR HIM TO
PRESENT IN OTTAWA, THEREBY MAKING IT EASIER FOR HIM
TO GET BROADER PERSONAL AUTHORITY TO NEGOTIATE THIS
ISSUE WITH US IN GENEVA. END COMMENT.)

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FM USDEL MTN GENEVA

TO SECSTATE WASHDC 1802

INFO AMEMBASSY OTTAWA

LIMITED OFFICIAL USE SECTION 2 OF 2 MTN GENEVA 6055

ACTION STR, PASS FEKETEKUTY

H PASS CODEL

6. CANADIANS NOTED THAT CANADA HAD ALREADY PROVIDED U.S. WITH A LIST OF PRIORITY ITEMS ON WHICH IT WANTS DUTY-FREE TREATMENT, SINCE SUCH A LIST COULD BE COMPILED FROM THE CANADIAN PROPOSALS FOR SECTOR NEGOTIATIONS. GREY NOTED IN THIS CONTEXT THAT THE CANADIAN SCHEME FOR SECTORS, WHICH CALLS FOR ALL PARTICIPANTS TO HARMONIZE THEIR TARIFFS WITH NEW U.S. RATES RESULTING FROM FULL APPLICATION OF THE TA AUTHORITY, WAS THE BEST MEANS OF ASSURING THAT DUTY ELIMINATION BE A MULTILATERAL, RATHER THAN BILATERAL UNDERTAKING. GREY ASKED IF U.S. COULD MAKE DEEPER THAN 60 PERCENT CUTS ON OUR TARIFFS OVER 5 PERCENT AD VALOREM IF THESE WERE NEGOTIATED IN SECTORAL CONTEXT. WALKER REPLIED SOME WASHINGTON OFFICIALS THOUGHT THIS MIGHT BE POSSIBLE UNDER SECTION 102 OF THE TA, BUT POINTED OUT THE AMBIGUITY BETWEEN THIS SECTION AND THE 60 PERCENT LIMITED OFFICIAL USE

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LIMIT IN SECTION 101 AND THE RISK OF CLAIMS THAT DEEPER REDUCTIONS EXCEED NEGOTIATING AUTHORITY IN TRADE ACT.

7. FURTHER LOBBYING BY CLARK ON NEED FOR SECTOR APPROACH AS MEANS OF ELIMINATING EC-EFTA TARIFF DISCRIMINATION LED TO DISCUSSION OF WHETHER SECTOR NEGOTIATION IS VIABLE IF INTRA-SECTORAL BALANCE CAN'T BE ACHIEVED. AMB. WALKER WAS SKEPTICAL THAT ANY COUNTRY WOULD AGREE TO A SECTORAL PACKAGE THAT DID NOT CONTAIN A BALANCE OF ADVANTAGES. ON PULP AND PAPER, FOR EXAMPLE, THE U.S. HAD LITTLE TO OFFER IN THE SECTOR, WHICH EXPLAINED WHY THE U.S. INDUSTRY BELIEVES ITS CHANCES OF OBTAINING CUTS IN THE EC TARIFFS ARE BETTER AS PART OF THE GENERAL TARIFF-CUTTING APPROACH. CLARK SEEMED TO FEEL THAT NEED FOR SECTORAL BALANCE NOT COMPELLING. GREY CALLED ATTENTION TO USE OF SUPPLY ACCESS COMMITMENTS AS MEANS OF BALANCING-OFF SECTORAL DEALS. GREY WAS UNUSUALLY BLUNT IN STATING THAT CANADIANS MIGHT CONSIDER ACTIONS (E.G. IMPEDING PULP EXPORTS) GIVING CREDIBILITY TO A SUPPLY ACCESS THREAT IF THIS PROVED NECESSARY TO GET THE EUROPEANS TO THE NEGOTIATING TABLE ON SECTORS. AMB. WALKER THOUGHT SUCH AN APPROACH DANGEROUS AND UNLIKELY TO SUCCEED. (COMMENT: IN PRIVATE CONVERSATIONS, MEMBERS OF THE CANADIAN DEL HAVE MENTIONED, WITH EVIDENT RELISH, THE POSSIBILITY OF EMPLOYING SUCH THREATS TO FORCE THE EC AND JAPAN TO AGREE TO SECTOR NEGOTIATIONS. WE DOUBT, HOWEVER, THAT SUCH A STRATEGY HAS RECEIVED ANY SERIOUS CONSIDERATION IN OTTAWA, WHERE THE WIDER RAMIFICATIONS OF SUCH ACTIONS WOULD HAVE TO BE CONSIDERED. END COMMENT.)

WALKER

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